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Your reference:
Our reference:
9 November 2009

Dear Iain

UTILITY REGULATOR'S DRAFT DETERMINATION 2010 - 2013

This is DRD's response to the Utility Regulator's draft Determination on NIW's Business Plan for the 2010/11-2012/13 period. The Minister has approved this response. As the Regulator has stated, "one of our most important duties is to advise the Regional Development Minister on the amount of revenue that NI Water needs to meet the Minister's strategic objectives and direction."¹

Stakeholder Engagement

In October 2008 the Minister for Regional Development issued a Partnership Agreement endorsed by all stakeholders in the water sector. In this, we committed ourselves to working openly to a common objective of getting water and sewerage services right for today and tomorrow's consumers. We said we shared responsibility for this objective, agreed to work collaboratively and to address issues internally rather than through the media or the law.

¹ Foreword to Utility Regulator's approach to the 2010/13 Price Control for NIW January 2009

To this point, the PC Process has reflected this approach. CCNI, DRD and NIW have worked collaboratively to produce the various documents that contribute towards the PC Process and the drinking water and wastewater regulators have informed the process through the PC10 working groups. In setting out the Regulator's approach to PC10 in January 2009, you acknowledged that, "it is important that we do not work in isolation but seek to coordinate the roles of other principal stakeholders in the PC Process²". We agree that it is important to maintain this approach in moving towards a settlement.

This is particularly important given the special circumstances of the water industry here. This is the first time that a regulatory price review has been undertaken. It affects a large scale, newly created body which has, during its first three years, had to address major legacy issues on investment in infrastructure, information, management and governance. As the Regulator's 2007/08 Cost and Performance Report puts it, "a fair assessment of the company's current status and progress must take account of its legacy: poor data, weak systems and under-performing assets³". The Report goes on to caution against treating NIW like a privatised English water company, "Comparisons with English and Welsh water and sewerage companies must be put in the context of these companies having been subject to an economic regulatory regime for almost 20 years". And, we would add, of having enjoyed £85 billion of investment from customers' bills over that period⁴.

The other major issue which makes a collaborative approach essential is the source of funding for the industry. Around 80% of NIW's income is provided by the Executive through subsidy. This not only has an impact on NIW in the form of public sector financial controls that, of necessity, must accompany such large sums of public money, but on the Executive's overall budget for other public services. In covering the scope for efficiency, the PC Guidance acknowledges

² Page 6, Utility Regulator's approach to the 2010/13 Price Control for NIW January 2009

³ Foreword to Utility Regulator's Cost and Performance Report 2007/08

⁴ Figure from Regina Finn, Chief Executive of OFWAT – Water 2009 Conference, October 2009

the importance of the issues of “financing NI Water and associated charging and subsidy policies...and the public sector model⁴”.

DRD agrees that the PC process is embryonic, that “the water industry in NI is still in transition⁵,” and that we face particular funding circumstances.

Nonetheless, the approach to the draft Determination seems to closely reflect an OFWAT regulatory settlement for a private water company. It sets very high efficiency targets, is based on benchmarking with English private companies (with, as you acknowledge, a 20 year head start) to achieve OFWAT targets (which is not an objective of the Ministerial Guidance) and with the risk ultimately carried by DRD and the Executive.

This has resulted in large gaps between the draft Determination and NIW's draft business plan. We acknowledge that there has been engagement between NIAUR and NIW since publication of the draft Determination. But there remains much work to do to. This work must continue. We understand and respect the Price Review approach, but we need a process which meets local needs and works for all stakeholders, particularly in the unusual context in which NIW is operating.

Reduced Funding

Regardless of the complexities involved the headline figures in the draft Determination represent reductions of around £100 million in both NIW's operational and capital funding over the PC10 period from around £630 to £530 million (minus additions on the capital side). At first sight most commentators would welcome an outcome which made such dramatic reductions to customers and taxpayers contributions. But is it sustainable, realistic and deliverable? In particular:

⁴ Page 25 PC Guidance

⁵ Page 11 PC Guidance

- what are the risks in terms of service levels and jobs?
- what is the method of dealing with the risk of not achieving the proposed reductions?
- are the proposals soundly based?

Impact of reductions

Concerns about efficiency targets have been raised previously (about the IWRP recommendation for 40% operating efficiencies by 2009/10):

“ - - we support **more challenging efficiency targets**, given appropriate implementation timetables. However, we think that such a rapid reduction in costs is likely to be unachievable - --.

The implications of an **unrealistically short time-frame** for the efficiency target is likely to be either a financial shortfall, or unacceptable compromises in service quality.”⁶

The scale of operational efficiencies now proposed could affect hundreds more posts than NIW has estimated. It may be that such changes should be made over time but we wonder what thought has been given to the wider economic impact given the Executive's overall policy in response to the economic recession? Whether justified or not, it does not seem to us that efficiencies of this scale could be made without disruption to existing service levels. Moreover, the sums allocated for severance in the PC period (£19 million) would be inadequate to cope with such reductions. No provision seems to have been made for this.

Top Down

The draft Determination takes a top down approach. We accept that it is not the Regulator's job to run the Company. However, where such large cuts are being proposed we would have expected to see some rationale for how the reductions could be delivered without the risk of detrimental effect to current service levels or wider adverse economic impacts. In our discussion with the Regulator leading up

⁶ NIAUR to DRD Minister 11 October 2007 on IWRP Strand 1 Report.

to the draft determination publication we asked for this analysis, but to date there appears to have been no formal recognition given to the possible outcome and impact of the targets being set.

Rationale for particular reductions

In some instances the draft Determination shows what reductions are proposed but it is less clear on why. On the capital side, the reduction in the unit cost of water mains by £16 million (Table 13 of Summary) is a case in point. The proposed reduction is based on the costs of recent NIW water mains replacement activity. However, the Company has informed us that recent activity has been concentrated in rural areas where costs are obviously much cheaper than in urban areas. The proposed reduction seems to pose a funding risk and the consequences of this would likely bring a reduction in service. There are other examples similar to this, where NIW is simply asked to make efficiencies without accompanying rationale or consideration of consequence.

Project Contingency and Risk

On a general point about risk, the draft Determination (paras 4.3.9 et. seq.) reduces project contingency from 10% to 5%. This leaves little margin for error, reduces NIW's ability to address unforeseen circumstances and, again, adds risk. Is this contingency inappropriate for a "Company in transition" – especially when the cost of new, more sustainable low carbon solutions may be a factor?

We recognise that much of the regulatory methodology evolved in England and Wales in a private sector environment. But we should not lose sight of the context within which NIW operates. This may require the management team to behave in a more risk averse manner than their private sector counterparts, it certainly imposes an immediacy in the examination of any proposals for cost saving measures by the company which does not exist elsewhere. The fact that this may

impact on the management team's ability to deliver stretching efficiency targets need to be fully recognised by the Regulator.

"Credible buffers against risk"

In defining its approach to strategic planning NIAUR identified the need for the way forward to be, "financially sustainable, i.e., incorporates a credible buffer against risks."⁷ In the current circumstances the only credible buffer for the majority of NIW funding is to seek additional resources from the Executive. This could impact on funds that have been allocated to other public services and on the Executive's overall plans. As has been explained in discussion, DRD must seek budget cover for NIW funds. Even if NIW was able to build up reserves, their use would still require budget cover (the same applies to other financial facilities). Thus, more "normal" regulatory methods of dealing with risk do not provide credible buffers in the case of NIW. This does not seem to have been factored into the draft Determination despite some recognition of the issue of NIW's classification.⁸

Sustainable Proposals?

Transparency

We think that understanding of the draft Determination would have been aided by consistent use of nominal/real and pre and post efficiency figures between it and the draft NIW business plan. This would help reconcile the two documents. Simplification of the PC Process was a repeated theme at the recent 2009 Water Conference, proportionality is one of NIAUR's principles of regulation and you are quoted as supporting simplification recently⁹. We think it is important that this is followed up.

⁷ Paragraph 64 of Regulator's response to Strand 1 of the Independent Water Review September 2007.

⁸ Page 46/47 of the Summary

Disguised Efficiencies

More fundamentally we were not always clear (particularly regarding opex) on the distinction between efficiencies and disallowed costs. Some of the disallowed items seemed to us to resemble efficiencies by another name. On the capex side there is generally no reduction in outputs (unlike the lower length of mains to be rehabilitated) to match proposed reductions in funding and so what are described as “scope and unit cost challenges” are really just efficiencies. Continuing with the capex side it seems to us that the combined impact of the Regional Price Adjustment, NIW’s own efficiencies (which are taken for granted), reductions in unit rates and NIAUR’s additional efficiencies means that an area like laying water pipes is subject to two, three or even four sets of efficiencies. Much the same seems to happen on the opex side with multiple efficiencies being imposed. We are not always clear on the combined effect but are concerned that the result may be untenable efficiency demands on particular areas.

As a principle we suggest that, as far as possible, only one set of efficiencies should be applied to each area. Openness and transparency are required.

To add to this we are not clear whether NIW is expected to make the same level of efficiencies in relation to uncontrollable costs as with controllable costs. This would not represent transparency as it would simply increase the level of efficiencies required from controllable cost areas. A substantial proportion of NIW’s operations are delivered through PPP contracts, in particular Alpha and Omega. These contracts inhibit NI Water’s ability to reduce costs through efficiency. In addition, there will inevitably be a proportion of NIW’s proposed Capex that will already be committed and not provide opportunities for efficiency. This will include SBP carry-over projects where contracts are already in place but may also include future projects where certain aspects (stage 1, design, tender) are complete. Have these factors been taken into account in assessing overall efficiency targets?

⁹ Utility weekly 9 October 2009

Perceived Inefficiency

On opex the draft Determination has created a category of “new” spend (against a 07/08 baseline) which needs to be particularly reined in. We are not convinced of the logic of this. 2007/08 would not seem an obvious choice for a “typical” year given NIW’s creation. Among other things, this meant that costs that were previously “notional” within Water Service became “real”; insurance costs covering liabilities as a result of the removal of Crown Immunity were required; pension costs have to be met; new PPP contracts came on line; costs of customer billing and contact arrangements; VER costs; business improvement costs and a suite of Regulatory costs..

Estimates of the costs of new activities – like regulation would have been speculative (as NIAUR’s estimates of its own costs shows) though NIW has managed to live within budget for the last three years. This includes absorbing substantially higher power costs. Where costs could not be justified – domestic bad debt, for example, they have been removed.

We are concerned that the methodology is driving out common sense rather than efficiencies. To give a specific example, a 50% cut in “new” chemicals has been made. There seem plenty of reasons why costs should have risen – more EU compliant WWTWs, increased drinking water compliance, growth, we understand the costs have risen recently but are always subject to variability and so on. To give another example there is a slight reduction in “new” rates but we understand LPS has advised that NIW’s rates bill will rise. So it is not always clear why these reductions are being made. This seems to support our concerns about risk.

It was with some concern that we noted the £12 m of operational expenditure on the Business Improvement Programme (BIP) has been disallowed. Annex B addresses in detail the reduction in BIP funding.

Application of methodology for operational efficiencies

In relation to opex efficiency the Regulator and NIW seem to be using the same methodology. However, application seems less consistent. Our principal concern is the treatment of the whole period since 2007/08 as the PC10 period. Instead of using the actual regulated revenue figures for the initial period (2007/08 – 2009/10) they have been replaced with lower figures after the event. It appears to us that the company is being asked to make retrospective efficiencies immediately at the start of the PC10 period (two years worth of additional efficiencies for 2008/09 and 2009/10 in zero time). In effect, after making all the efficiencies required of it by the Department during the initial period, NIW is being told that they should have done better and must, make up the shortfall immediately in 2010/11 as well as making the efficiencies for that year. This seems unrealistic to us but, in any event, we do not believe the Licence gives the Regulator the authority to revisit the regulated revenue figures set by the Department and recalculate them as you might have wished. The same point applies to any recalculation of RCV which is dealt with below.

Special factors

In relation to special factors, particularly the water distribution model and the regional wage scope adjustment, there are considerable differences between the positions adopted by NIAUR and NIW. There would appear to be grounds for further discussion of these points as the draft Determination seems to acknowledge that in places the methodology lacks conviction.

There are a number of other more detailed points set out in Annex A.

Other Points

Regional Price Adjustment

The DD identifies a regional price adjustment for Capex of 17%. This is much larger than NIW's proposals (7%) and for example, than in Scotland (8%). NIW uses a considerable amount of specialist advice, plant and services that are common to the water industry. So it is difficult to identify how significant cost savings are available to the company just because it operates in Northern Ireland. The proposed price adjustment is based on the Building Cost Information Survey (BCIS) estimate of standard construction costs here versus the national average. This is not based on assessment of water industry factors. The Regional Price Adjustment needs to be revised to a more realistic, evidence based level.

Infrastructure Renewals Charge (IRC)

OFWAT's Regulatory Accounting Guideline 1.04 states that 'Infrastructure renewals accounting is based on an operational assessment of activity needed to maintain the serviceability of the underground infrastructure over a medium to long-term period (typically in excess of 15 years).' In its draft business plan, NIW has calculated its IRC to be £121 million for PC10 using a ten year assessment of Infrastructure Renewals Expenditure (IRE) needs (five years historic and five years forecast) in line with RAG 1.04. However, it would appear that NIW's assessment of IRC has been dismissed because of the confidence grade of one year's data (01/02)¹⁰. Instead, a short-term assessment of IRE has been made resulting in a much lower IRC of £78M. As the draft Determination recognises, IRE goes up and down from one year to the next. It would be of concern if an unrepresentatively 'low' IRE year had been used as a basis of IRC calculation. Future customers would be penalised. In fact the draft determination acknowledges the difficulty in calculating an accurate IRC and IRE due to the limited data available. Despite this, the much lower figure is proposed which, as

¹⁰ Paragraph 7.7.7 of the draft Determination

in other areas, suggests that very high levels of risk have been taken on board without any means to address them.

Sewer Flooding

On sewer flooding the unit cost for addressing households liable to flooding (DG5) seems to have been reduced from 75K to 65K. This issue was identified by the Consumer Council as customer's highest priority for waste water investment. This seems to mean less funding in this area rather than increased output. Can you confirm your assessment reflects the lack of reliable data and the risk of not getting value for money?

Weighted Average Cost of Capital (WACC), Dividend, Reserves, RCV

We are content with the proposed WACC in the draft Determination and we have been supportive of the Regulator proposing appropriate policies on dividends and reserves. However, all these issues will require further discussion with DFP as the use of reserves would require Executive agreement to additional budget cover.

We are not supportive of the proposal to increase the opening RCV by £114m for the PC10 period to achieve financing targets. The indication that the RCV will be examined further as part of the PC13 process concerns us as this will serve to prolong the uncertainty about the future level of RCV. We do not think this is a sensible approach. When the company was established, a "fair value" was determined based on the projected discounted cash flows i.e. the forecast income and the forecast expenditure over a period of 7 years. Indeed, John Dowdall, the Comptroller and Auditor General at the time, commented on the extensive work undertaken by Water Service and DRD in establishing this "fair value" and that in his opinion, £800m represented a "fair value" of the net assets of Water Service (excluding surplus assets and associated liabilities) as at 31 March 2007. The model on which the calculations were based was independently reviewed and the independent consultants concluded that the model was sound

Notifiable Items

NI Water's draft business plan proposed a number of notifiable items including climate change and the Carbon Reduction Commitment (CRC). Most of these were disallowed and SBP items not rolled forward.

It would be unsafe if this is based on the assumption that NIW will have access to the Revolving Credit Facility (RCF) to cover any unexpected increases in costs¹¹.

There are two problems:

- for NIW to do so would require them to avail of RCF B at a higher rate of interest and the company would be unable to recover any of the costs from future income; and
- as a result, the risk would ultimately fall to DRD as additional in-year budget cover would have to be sought.

On the latter point, the potential use of the £55m RCF, while a condition of the NIW Licence, would always have presented the Department with a problem in terms of securing budget cover to facilitate any drawdown (mainly because of the unplanned nature of the pressures requiring the drawdown). While the facility is now non-budget in public expenditure terms (as a result of NIW's reclassification to NDPB status), any utilisation of the facility would lead to an increase in NIW expenditure in excess of the company's approved budget (assuming you maintain your view on Notified Items). Because NIW's expenditure directly impacts on DRD's budget, this would present the Department with a budget pressure in the given year. In short, therefore, it cannot be assumed that NIW can cover the cost of the disallowed Notified Items in future years by simply drawing down from the RCF. As noted above, given the current fiscal constraints across the public sector, there is a high risk that DRD would not be able to secure any additional budget cover through in-year monitoring (which would be the normal mechanism for securing additional resources in any given year).

Turning to the items themselves we note that the Regulator takes the view that the Climate Change risk faced by the company is the same as that faced by any other water company. The draft Determination states that there 'is no precedent for the impact of climate change or any Carbon Reduction Charge being accepted as a notified item'. We are not sure that this is valid (see Annex C for OFWAT comments) and accept that there may be a case for including the Carbon Reduction Charge as a notified item (Annex C also).

In general, we would welcome further discussion on this point given the risks and budgetary implications for DRD.

I understand that the Regulator has been in discussion with DFP on the revolver, and other financial aspects of the Determination process. I would be grateful if you would confirm that the Regulator is willing to share the outcome of those discussions with DRD.

Household Payments

The draft Determination quotes hypothetical household charges. This is a complex area and commentary needs to be carefully balanced. In particular, no distinction is made between notional domestic customer contribution and additional household payment. The latter would represent the “real” impact on households and would be likely to be much lower than the figures quoted.

Comparison with English & Welsh Targets

The Regulator agrees with the Independent Water Review Panel's opinion that Scottish Water is an important precedent for improving levels of service along with reductions in operational spend. Yet reference to Scottish Water in the draft Determination is comparatively rare. The primary focus of the document is the

¹¹ As paragraph 9.1.7 of the Determination appears to suggest.

efficiency gap with English and Welsh water companies that have been privatised for over 20 years.

Points that must be borne in mind in taking this approach are:

- The assumption that NIW should achieve targets equivalent to English and Welsh water companies as a goal in itself is not based on the Executive's policy decision.
- Any comparisons between English and Welsh companies and NIW must acknowledge the context in which NIW operates;
- Comparisons should be fair. For instance, the comparisons of Opex and Capex per household will show NIW¹² comparing badly. A different comparator – such as the capex/opex per km water main/ sewer – might give a more favourable impression. The figures may be telling us more about local demographics than NIW's performance.

Finally we remain concerned about the Regulator's use of Ofwat's Overall Performance Assessment (OPA) as a means of assessing NIW. We have been through these issues before. There seems to be no acknowledgement of our concerns. So, I fear, this seems likely to become a problematic issue as we attempt to move forward.

Conclusion

Considerable changes to the approach taken in the draft Determination will be required if we are to move forward in the spirit of partnership which we agreed last year. We cannot see how some proposals are deliverable and we have a key concern about the draft Determination's approach to risk. As the Minister has made clear, there will need to be ongoing engagement over the next few weeks and months to resolve these issues.

¹² Figures 1.2 & 1.3 of Determination

I am copying this letter to Chris Mellor, Laurence MacKenzie, Antoinette McKeown, Dave Foster and Margaret Herron.

*Yours sincerely,
Lia Patterson*

Lian Patterson

Annex A

Points of Detail on Operational Efficiencies

It is not clear in table 6.1 (page 93) why the figure for total operating expenditure is £233.831m? Paragraph 6.2.8 suggests that it should be £278.24m.

In paragraph 6.3.1 the baseline opex net of atypicals is £171m and £178m gross of atypicals, representing a difference of £7m. However paragraph 6.1.3 mentions special factor and a typical of £17m. Why is £7m used rather than the £17m?

Table 6.3 refers to claimed and allowed additional opex. It would be helpful to have more in-depth commentary on why claims have been disallowed, particularly where it simply states "BAU". In many cases, for example, power and sludge transportation, there is significant disparity between the Regulator and NIW. Indeed, there are a number of areas where NIW has made sizeable claims, which have been completely disallowed by the Regulator. The fact the positions are so far apart is of concern to the Department. More specifically, in the case of power it appears that the Regulator is citing additional efficiencies to justify reducing NIW's claim but then applying additional efficiencies on top of this.

Special Factors

The proposed allowance in relation to the amount claimed for special factors is of concern to the Department, specifically in relation to (a) the water distribution model and (b) the regional wage scope adjustment.

- (a) Water Distribution – the basis of the allowed special factor focuses on what NIW's mains length would be in England & Wales. However, there appears to be no basis or justification of the assumption in paragraph 3.22 that "it is assumed that the difference represents small low cost infrastructure". Further information on this would be helpful, for example has the Regulator carried out analysis on trunk mains?

(b) Regional Wage Adjustment – it would be helpful to have a more robust explanation of why Option 2 has been chosen.

On a more general point about special factors, what do the cuts in claims actually mean in practice, for example how does a wage adjustment of -£5.6m affect the money available to pay NIW's actual wages and salaries cost?

The second sentence under paragraph 6.9.7 is key to the Department's concerns on opex efficiencies. NIW must receive the necessary additions to opex to enable it to deliver its work.

The Department is unsure where the £228m figure in paragraph 6.9.9. is derived from.

Opex Methodology

The assertion in paragraph 6.4.6 that by PC13 NIW should have sufficient internal revenues appears to assume that NIW is operating commercially and is permitted to build up reserves. This is not currently the case.

It is curious that such a discrepancy exists between the bands identified by the Regulator and NIW in paragraphs 6.6.17 and 6.6.18. Could this be expanded upon?

The various views on efficiencies expressed under paragraph 6.6.32 (i.e. ERNEST, IWRP and the Draft Determination) appear to be the analysis of the same individual. Therefore, to what extent can they be considered independent?

Is the basis for the rejection of the Cubbin discounts sound i.e. is the Regulator confident that data is now robust enough?

Both the Regulator and NIW use 2007/08 as a base year. The Regulator appears to use a five year period with the last three years being the PC10 settlement period. Alternatively, NIW appears to assume that the PC10 period is the first three years of a five year period. There needs to be clear agreement and understanding in respect of the settlement period.

Is NIAUR suggesting in paragraph 6.9.5 that NIW will be required to make greater efficiency savings on account of being given additional money or is it saying that it will be able to make the same level of efficiencies on the additional money?

Annex B

NIW Business Improvement Programme

With regard to NI Water's Business Improvement Programme (BIP), it has always been our understanding that the company planned to approach this on a phased basis. For this reason, it was of some concern that we noted that in the Draft Determination, £12M of operational expenditure in relation to the BIP has been disallowed (DD report reference 6.1.3).

We recognise that you encouraged the company to make a further submission on this aspect of the PC10 Business Case and the Department understands that NI Water has submitted further details to the Regulator.

The reference at part 6.4.5 of the Draft Determination states that 'In addition, expenditure by end of the SBP transition period for BIP appears almost the same as that approved by Minister and since BIP programmes were to have finished by close of SBP, NI Water's claim for additional BIP lacks any prima facie case'.

However this is factually incorrect, as the table below illustrates.

Table showing variance of One Programme costs over the Strategic Business Plan period to Ministerial Submission

	2007/08 Total £M	2008/09 Total £M	2009/10 Total £M	3 year SBP Total £M
As per Ministerial submission	21.3	30.6	30.1	82.0
07/08 and 08/09 actual, and 09/10 forecast	21.3	22.1	18.8	62.2

Variance	0.0	8.5	11.3	19.8

This table shows that NIW is forecasting that it will have spent around £19.8M less in the SBP period on BIP costs than had been included in the Ministerial submission.

The Department/Shareholder is of the view that the transformation process that NIW is undertaking needs to be sustained through the PC10 period, to ensure that the performance improvements the company is making continue to benefit customers and the environment. Indeed, the Department/Shareholder thought that this was the common view of all stakeholders, given the very comprehensive tripartite conversations that took place between the Shareholder Unit, the Business Improvement team and NIAUR in the months preceding the publication of the Draft Determination. We are therefore surprised that the Draft Determination did not include BIP operating costs for the next 3 years.

The need for continuing funding from 2010 was identified in the 'Why NI needs the One Programme' document, which was provided to all stakeholders.

This is an area where the Department would envisage that the Output Review Group would have a significant role in monitoring the Programme going forward.

The Department would plan to continue with its monthly meetings with the BIP Team to be in a position to escalate issues and report to other stakeholders. The Regulator is aware that this area of the business is also closely monitored at each QSM.

Annex C

Notifiable Items: Carbon Reduction Commitment

Our understanding is that in its Draft Determinations published in 2009, Ofwat has proposed two notified items for English and Welsh companies: expenditure to deal with the impact of climate change; and costs associated with the impact of the Traffic Management Act. The rationale behind climate change being accepted as a notified item is explained in the letter issued to each of the water and sewerage companies on 23 July 2009. The letter states that: 'For the purposes of this determination, the Water Services Regulation Authority notes that the companies, in evaluating costs necessary to balance water supply and demand, have not been able to utilise UKCP09 data sources and appropriate analytical tools published by the UK Climate Impacts Programme on June 18 2009. Any increase in costs which a company can demonstrate, by applying appropriate analytical tools to UKCP0 is necessary to address the impact of climate change on balancing water supply and demand is a Notified Item.'

The CRC scheme will be introduced in April 2010 but the full cost implications for NI Water are not yet clear. As our largest single electricity consumer with much of its energy usage fixed through regulatory requirements and the need to pump water/wastewater large distances, it is difficult to envisage how NIW can deliver a carbon usage reduction during the PC10 period. Ever increasing standards for water and waste water treatment inevitably require greater energy. The UK water industry estimate that the enhanced waste water treatment standards needed to meet the Water Framework Directive will increase the industry's carbon usage by over 2.5% each year. It would therefore seem reasonable for a Notified Item on CRC to be included for PC10 to cover a possible additional Capex requirement for a move towards more sustainable treatment and infrastructure solutions or to cover the direct resource costs of participating in the CRC scheme.